

THE FEASIBILITY OF THE REAGAN ADMINISTRATION'S
ENTERPRISE ZONE PROPOSAL

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BY
PAULA MARIE JONES

DEPARTMENT OF PUBLIC ADMINISTRATION

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ABSTRACT

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JONES, PAULA

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The Feasibility of the Reagan Administration's Enterprise Zone Proposal

Advisor: Dr. Keith Simmonds

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The primary intent of this paper is to examine the feasibility of the Reagan Administration's Enterprise Zone Proposal. Strict attention is paid to the types of problems encountered by urban areas, such as, the rising crime rate, unemployment, declining tax base and the uneducated, which stress the need for Enterprise Zones. An attempt has also been made to highlight past urban economic development programs that have failed in their attempt to revitalize urban areas.

The concept of Enterprise Zones is a new urban renewal proposal. Due to its newness the main source of data was obtained from secondary information such as periodicals, books, pamphlets, and unpublished materials.

This study is significant because it addresses the realities of urban areas when examining the feasibility of Enterprise Zones. In addition, it has come at a time when important decisions will be made concerning the future of Enterprise Zone legislation.

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I. INTRODUCTION

Since the dawn of civilization the city has played the central role in the evolution of human society. The great cities of the past have been the dominant influence of European conventional thought in urban areas. However, today's small cities in the United States can provide the same social services as major European cities, for many small cities have been significant to the development of America. But the structure and foundation of the city has vastly deteriorated. It is apparent that the major causes are related to the problems of population decline and the lack of economic support. This creates a simultaneous erosion of the tax base and an increase in the demand for city expenditures of welfare and public services. Consequently, there exists the intractable problem of urban blight. The dominant influences in the various districts of major cities have been plagued by the probably irreversible spiral of decay and decline. Therefore, the Reagan Administration has made efforts to diminish such inner city blight by proposing a "supply-side urban policy to revitalize the inner city."¹ This proposal will call upon the private sector to stimulate an increase in jobs and investments, for this is considered to be more efficient than relying on direct aid from the government, as in the past.

¹Robert G. Collazo, "Enterprise Zones Trickle Down in the Big Cities", Black Enterprise, July 1982, p. 50.

The major thrusts of the Administration's plan are tax incentives and regulatory relief to firms that are willing to take the risk of conducting business in the inner cities. The Administration's aim is to convert specially designated areas of urban decay into Enterprise Zones and, according to proponents, "their success will eventually create a resurgence of slumping regions and a revitalization of depressed urban economies at considerable less cost to the American taxpayer."²

The purpose of this study, therefore, is to examine the feasibility of the Reagan Administration's Enterprise Zone proposal and to examine its relevance to the crisis of the inner city.

Origination of Research Problem

The writer served as an intern at the Martin Luther King, Jr. Center for Nonviolent Social Change, Inc. The research problem, however, is unrelated to the specifics of her internship due to the lack of cooperation from the Center to provide the necessary information needed for research. After consultation with her advisor, it was suggested that she identify a public sector related problem with an urban setting. The Reagan Administration's Enterprise Zone Proposal was identified because of its urban focus and its policy implications. The proposal addresses an urban problem that the writer became aware of during her internship at the Center, as a Research Assistant.

²Ibid., p. 51.

II. THE PROBLEM

During the summer of 1982 the writer served as an intern with The Martin Luther King, Jr. Center for Nonviolent Social Change, Inc. for a sixteen-week period in the capacity of Research Assistant in the King Library and Archives. Her primary responsibilities included conducting research on the life of the late Dr. Martin Luther King, Jr., and issues and strategies used in the civil rights campaigns.

Through information obtained from reviewing printed materials and films in the King Library and Archives, the intern became aware of the various problems faced in urban areas, especially the need for rejuvenation in the inner cities.

The Reagan Administration has proposed the adoption of Enterprise Zones to revitalize the inner city. Overall, the basic objectives of these programs are to create jobs in the nation's depressed areas and to redevelop and revitalize the geographic zone areas.³ The Enterprise Zone plan is comprised of four major elements: (1) tax relief at the Federal, state and local levels, (2) regulatory relief at the Federal, state and local levels, (3) efforts to improve public services, possibly including experimentation with private alternatives for those services, and (4) involvement in the program by private, local and

³"The Administration's Enterprise Zone Proposal", March 1982. Handout, Department of Housing and Urban Development.

neighborhood organizations.⁴

Statement of the Problem

The Reagan Administration has proposed the establishment of Enterprise Zones to rejuvenate the inner city. Conceptually, the proposal appears attractive and offers a new approach to deal with the crisis of the inner cities. If it were to be activated as conceived, the program could possibly bring the desired results of alleviating urban blight. However, there is another dimension of this concept, i.e., the realities of the American private sector and the fiscal problems of municipalities and rural towns. Examples of this dimension include the existence of a "high crime" rate that cities have, a declining tax base, declining population, a rising pool of unskilled youth, and relatively high business costs. Keeping these urban problems in mind one can appropriately ask: Will companies seriously consider economically depressed municipalities as healthy business environments in which to operate? Will cities, strapped for revenues, be able to offer the kinds of tax incentives that will act as carrots to potential business enterprises? These questions will be addressed throughout the study.

Another important factor to be considered is the reduction of capital gains and business income taxes that may not necessarily aid small businesses struggling to gain profits during the first several years of operation. Small businesses usually need assistance with initial operating costs and low interest venture capital. The major concern is that existing

⁴Ibid., p. 3.

small and minority businesses in Enterprise Zone areas may suffer from increased competition, rather than benefit from tax breaks and other business incentives.

The problems raised above suggest that the success of the proposal may be open to question. The task of the degree paper therefore is to explore the merits and demerits of the proposal and offer a conclusion and recommendations based on the very limited data obtained for this study.

III. REVIEW OF THE LITERATURE

Cities are the heart and pulse of America, the centers of business and culture and the home of three-quarters of the United States population--about 173 million people.⁵ Look at San Francisco from across the bay: steep hills and blue water and the sun gleaming off the Golden Gate Bridge. Or view the incomparable New York skyline from the air at night and you will envision millions of lights as far as the eye can see. Or fly over Atlanta's "Golden Triangle" with its gleaming office towers, a model of downtown renewal.⁶

But the portrayal of the city, in itself, can be very deceiving. Amidst their dauntless skylines, America's cities are seething with trouble. This deterioration of these urban areas has been coined the "urban crisis". Among its multiple problems are: urban blight, racial tension, poor education, decaying housing and a surplus of uneducated, unemployed and unskilled inhabitants. Older people, the very ones who are least able to escape, are particularly susceptible to these problems.⁷

Since 1965, Federal funds for state and local development

⁵Scott Thods, "Crowds and More Crowds-No End of Urban Hassles", U.S. News and World Report, April 5, 1982, p. 47.

⁶"Our Cities-Are they Really Doomed?" Senior Scholastic, February 16, 1970, p. 3.

⁷Thods, "Crowds and More Crowds-No End of Urban Hassles," p. 47.

programs have amounted to \$59 billion. In New York City's South Bronx, for example (population 416,000), one-third of the population is on welfare. Thousands of businesses have fled in the past five years—forcing more than 15,000 residents out of work. Comprising the city as a whole, almost 165,000 private sector jobs have vanished in the past ten years, costing the city hundreds of millions in lost tax revenues. Philadelphia, Chicago, St. Louis, Newark, Atlanta and several other cities are experiencing similar problems.⁸

President Richard Nixon, during his Presidency, felt he had the answer to the crisis of the city by proposing the Comprehensive Employment and Training Act (CETA), President Jimmy Carter proposed The Urban Development Action Grant (UDAG); and the incumbent President Ronald Reagan put forth a supply-side urban renewal scheme to rejuvenate and revitalize the core of the city by proposing the Enterprise Zone approach.

The birthplace of the idea of Enterprise Zones has not been fully established. In June of 1978, Sir Geoffrey Howe, M.P., while serving as an economist and spokesman for the British Conservative Party, delivered the first formal lecture on the idea of Enterprise Zones. During the lecture Howe admitted that the "germ of the concept came chiefly from Peter Hall, an urban planning expert at Reading University and a former chairman of the Fabian Society."⁹ Subsequently, Hall was influenced by particular

⁸Mark Frazier and Dick Cowder, "Strong Medicine for Sick Cities II. Cutting the Ties that Bind", Reader's Digest, June 1983, p. 158.

⁹Stuart M. Butler, Enterprise Zones Greenlining the Inner Cities (New York: Universe Books, 1981), p. 95.

conclusions that were previously established concerning the approach to urban economic development. Eventually, this prompted the concept of the Enterprise Zone.

The major purpose of Enterprise Zones is to promote self-help in the city instead of relying on government agencies and larger commercial lending institutions. For instance, the concept claims that it is wasteful for government to allocate substantial sums of money to housing projects for commercial purposes. In essence, the Enterprise Zone plan suggests that the local entrepreneur and the urban inhabitants should collaborate their efforts in order to make the most of the minimum resources available. Under such a cooperative design, the government could implement the proposal more effectively. In addition, the residents could "achieve stability if they created a climate where self-help projects would be more likely to succeed."¹⁰

This line of thinking has been adopted in proposals set forth in Britain during the last three years, and was recently introduced in the United States. Peter Hall was the first to utilize this new approach of thinking in England by developing the "Freeport Program". He believed that Freeport was the answer to the blight of the inner city. The central elements of Hall's program would involve the encouragement of entrepreneurship and capital in the heart of declining cities.¹¹

¹⁰ Stuart M. Butler, Enterprise Zones Pioneering in the Inner City (Washington, D.C.: The Heritage Foundation, 1980), p. 21.

¹¹ Ibid., p. 22.

Peter Hall did concede that the Freeport Plan was a grave departure from the familiar mold of the British welfare state, but this new strategy enriches the economy through the provision of job opportunities for low-skilled and unskilled people. Thus, the benefits of the plan outweighed any negative challenges. However, Hall did caution that the Freeport Plan was only fitting for specific localities, and:

since it would represent an extremely drastic last-ditch solution to urban problems, it would be tried only on a very small scale. It is most appropriate to inner city areas that are largely abandoned by people or alternative areas with very grave social and economic problems.¹²

Hall's idea encouraged several British politicians to look carefully for a policy based on similar foundations. Ultimately, this search led to the concept known as the Enterprise Zone.¹³ Although both plans were similar, Howe's plan was a more modest approach than Hall's. For example, Howe's idea was to set up test market areas or laboratories which would enable fresh policies to "prime the pump" of prosperity, and could establish their potential for doing so elsewhere.¹⁴ Moreover, Howe envisioned the Enterprise Zones as being testing grounds for differing social arrangements where individuals could determine the effectiveness of their idea.

The Enterprise Zone concept was first introduced to the

¹²Stuart M. Butler, Enterprise Zones Greenlining the Inner Cities (New York: Universe Books, 1981), p. 97.

¹³Speech to the Bow Group, London, June 26, 1978.

¹⁴Stuart M. Butler, Enterprise Zone Pioneering in the Inner City, p. 23.

United States in 1979 by the Heritage Foundation.¹⁵ In light of the different political and economic emphasis and diversities in this country, several modifications have been added to the original idea in the Heritage Foundation's publications and sponsored articles.¹⁶

The introduction of the Enterprise Zone concept was furthered by Congressman Jack Kemp, a conservative Republican from Buffalo, and Robert Garcia, a liberal Democrat representing New York City's impoverished South Bronx. They introduced the Enterprise Zone bill in Congress in June 1980.¹⁷ After a year of debates, a revised bill was introduced on June 3, 1981, with hearings on the revised bill held in the late summer.¹⁸ The bill was subsequently passed and is formally known as the Urban Jobs and Enterprise Zone Act (H.R. 3824),¹⁹ or the Kemp-Garcia Proposal.²⁰

Under this proposal, any urban area that consists of at least 4,000 people would qualify as an Enterprise Zone if it has an unemployment rate well in excess of the national average, or if a substantial number of its families were living below the poverty level.²¹ Companies that move into the designated areas

¹⁵Speech to the Bow Group.

¹⁶Stuart Butler, "Enterprise Zones: A Real Solution to Urban Decay", The Lincoln Review (Winter 1980).

¹⁷Mary Parker, "Enterprise Zones: A New Concept in Urban Reinvestment", Federal Home Loan Bank, August 1981, p. 3.

¹⁸Thomas Martin, "Enterprise Zones Legislation Eagerly Awaited", National Real Estate Investor (February 1982), p. 26.

¹⁹Mary Parker, "Enterprise Zones", p. 3.

²⁰J. Poole, "Enterprise Zones May not be Enterprising Enough", Black Enterprise, February 1982, p. 27.

²¹Robert McEtroy, "Urban Enterprise Zones", Newsweek, February 23, 1981, p. 65.

would be treated to a number of Federal tax breaks, including a reduction in both capital-gains and regular corporate income taxes and accelerated depreciation of their assets.²² In addition, the Kemp-Garcia Urban Jobs and Enterprise Zone Act also provides for a tax credit for qualified employees working in a zone; a 100 percent reduction in capital-gains tax rates for unincorporated businesses in a zone; and a large reduction in corporate capital-gains tax rates on transactions outside the zone.²³

Essentially, the Kemp-Garcia Bill would establish ten to twenty-five Enterprise Zones per year for three years. These zones would have to meet standards concerning physical and economic characteristics and the local government would be required to make certain commitments.²⁴

As expected, President Reagan heartily endorsed the urban Enterprise Zone concept in his January 26, 1982 State of the Union Address. He suggested that offering incentives for businesses to operate in designated blighted areas could revitalize the ghettos and spur employment.²⁵ Consequently, on March 23, 1982, President Reagan sent to Congress the Enterprise Zone Act.

The objective of the act and the proposed program, according to the Reagan Administration,

²²Ibid., p. 65.

²³Margaret Price, "Enterprise Zones Win White House Favor", Industry Week, February 8, 1982, p. 28.

²⁴"Controversy Over Urban Enterprise Zones", The Congressional Digest, March 1982, p. 69.

²⁵Price, "Enterprise Zones Win White House Favor," p. 28.

is to create an environment conducive to economic revitalization and job creation in distressed areas through relief from taxes, regulation, and other governmental burdens, improving municipal services and infrastructure, and involving private entities and neighborhood organizations. Because the program is based on the concept of removing government burdens rather than providing government subsidies, it requires no Federal appropriations.²⁶

For a more detailed overview of the Enterprise Zones incentives see Table 1.

Nominations for Enterprise Zones will be made by state and local governments based on Federal criteria such as unemployment rates, poverty levels and population loss. Founded on this criteria, there will be more than two thousand cities, rural areas, and Indian reservations with zone eligible areas. The Secretary of Housing and Urban Development will then designate up to twenty-five zones in each of the three years.²⁷ The size of the zones and the number of the businesses in each will vary extensively.

Inherently speaking, the Enterprise Zone concept is sound in theory. By dismissing some of the tax burdens and regulations, thereby inducing incentives, private businesses may return to the sluggish cities to invest. The benefits accruing from these incentives:

are intended to reduce the costs of production within the area to such an extent that managers making locational decisions for economic activities, and individuals establishing businesses will find the zones to

²⁶ "The Enterprise Zone Employment and Development Act of 1982". Handout.

²⁷ Barry H. Lecerf, "Rebuilding Economic America", Iron Age, September 6, 1982, p. 28.

TABLE 1

FEDERAL ENTERPRISE ZONE PROPOSAL SUMMARY OF INCENTIVES

Capital-related Incentives	Labor-related Incentives
Capital gains tax exemption on investment within zones	Employer tax credits for hiring disadvantaged workers equal to 50% of the worker's wage for three years, phasing out by 10%, in years four to seven. This credit has no ceiling.
Additional investment tax credits of 5% for personal property and 10% for new construction.	
Extension of unused credit carry-back to three years and the unused credit carry over for the life of the zone or 15 years, whichever is longer.	Employer credits of 10% on total enterprise zone payroll (for existing businesses; this is 10% of the increase in payroll after zone designation) for the first \$17,500 paid to qualified employees.
Availability of small issue industrial developments bonds within zones beyond 1986 and accelerated cost recovery for property financed by these bonds.	Employee personal income tax credits of 5% on the first \$10,500 in wages earned in the zone.

Source: Stephen J. Bollinger, "Federal Enterprise Zone: The Administration's View", Commentary (Summer 1983), p. 13.

be optimal locations for their enterprises.²⁸

One of the constraints imposed on these businesses is that some percentage of their employees are to be residents of the zone. If this is true, then jobs will indeed be created to employ the uneducated and unskilled inhabitants of the zone, which, as a consequence, will stimulate economic activity in the zone, thereby converting zone residents into productive citizens of the system.

Several urban economic development programs have been tried over the years. The Model Cities program, the Comprehensive Employment and Training Act--CETA, and Operation Bootstrap (limited to Puerto Rico), are only a few of such programs. The writer will discuss these three urban economic development programs in order to enlighten the reader on past endeavors to rebuild the inner city.

The Model Cities program was also sound in theory. The program was designed to encourage participating cities to develop a concerted attack on social and economic problems as well as physical decay. Consequently, it required the coordinated efforts of all relevant agencies, and it emphasized the need for meaningful citizen participation. The Department of Housing and Urban Development (HUD) was named the administering agency.²⁹

²⁸Barclay G. Jones and Donald M. Manson, "The Geography of Enterprise Zones: A Critical Analysis", Economic Geography (October 1982), p. 329.

²⁹Marshall Kaplan, Gans, and Kahn, The Model Cities Program (New York: Praeger Publishers, 1970), p. 7.

In essence, eligible cities were to receive one-year planning grants with which to prepare comprehensive plans to improve the quality of life in their Model Neighborhoods. Both implementation and extensive planning would occur over a five-year demonstration period. During that time funding would be available through appropriate Federal categorical aid programs and supplemental Model Cities grants. The latter were to be used for new and innovative activities, the redirection of existing resources for more effective use, and the mobilization of additional resources.³⁰

To qualify for designation as a Model City, communities were asked by HUD to meet several related requirements and performance criteria. These included:

1. Establishment of a comprehensive planning organization to administer the program.
2. Implementation of a complex set of sequential planning processes.
3. Submission of carefully drafted and detailed plans and analyses.³¹

Undoubtedly, in the late 1960s the Model Cities Program was abolished because it failed to achieve its goal and proved to be a waste of the taxpayers money.

In keeping with the thrust to find a solution to urban problems, another alternative was adopted, namely, the Comprehensive Employment and Training Act (CETA) of 1973. It was

³⁰Ibid., p. 7.

³¹Office of Community Development, The Model Cities Program (Washington, D.C.: Department of Housing and Urban Development, 1973), p.

intended to increase the earned income of the entire spectrum of economically disadvantaged, unemployed and underemployed persons living in depressed areas by providing them with classroom instruction in occupational skills and other job-related training.³² Plagued by fraud and abuse, CETA was phased out in 1982 and according to Representative David R. Obey, D-Wis., "CETA had become a second most unpopular program in the country after welfare".³³

Finally, among the last of these languished ghetto revivers is Operation Bootstrap. This plan induced thousands of United States plants to move to Puerto Rico because of incentives similar to those recommended by the administration's Enterprise Zone proposal. Textile plants, toy manufacturers and other low-wage industries found Puerto Rico an attractive alternative to relatively high-wage, unionized areas of the industrial Northeast of the United States. However, only a few companies that employed highly skilled labor move to Puerto Rico. Consequently, Puerto Rico became a haven for low-wage, low-technology and economically marginal business; it never succeeded in reducing joblessness to mainland levels. The unemployment rate on the island remains high, and without the large emigration to New York and other United States cities, it would be even higher. Most Puerto Rican workers are still

³² Department of Labor, Comprehensive Employment and Training Act, Office of the Federal Register, 1982/1983.

³³ Congressional Quarterly Almanac, "CETA Jobs Act Extended", 95th Congress, 2nd Session, 1978.

employed in low-wage tourism or other services industries.³⁴

Operation Bootstrap was not a national program. However, it does have incentives similar to those of the Enterprise Zone proposal. Consequently, if the Reagan Administration has similar incentives in mind for the United States, then it may be useful for the President and his advisers to examine the results to date of the Puerto Rican experience.

The above programs, Model Cities, CETA and Operation Bootstrap failed in their attempt to alleviate economic hardships of many United States cities. Enterprise Zones, on the other hand, have been referred to as the "fresh approach" to combating the urban crisis.³⁵ In the following pages the writer will attempt to analyze the feasibility of Enterprise Zones, both conceptually and realistically.

³⁴ Stanley Aronowitz and Cary Goodman, "A Walk on the Supply Side", The Nation, February 21, 1981, p. 207.

³⁵ Mark Michaelsen, "Enterprise Zones: A Fresh Approach", Current, October 1982, p. 50.

IV. METHODOLOGY

This study's focus is primarily an exploratory analysis of the Reagan Administration's Enterprise Zone Proposal. In the process of conducting the study the researcher has utilized an exploratory method of research.

The researcher's purpose for using such a method of research was to increase the researcher's familiarity with Enterprise Zones, and to inform the reader on the difficulties of establishing Enterprise Zones. In view of the fact that the Enterprise Zone concept is new and very little has been written on it, the exploratory method is considered to be the most feasible research tool to be adopted for this study since this approach can assist in breaking new ground and can almost always yield new insights on a research topic.

A descriptive method of research, which is used to describe situations and events,³⁶ was not utilized because Enterprise Zones are still an idea rather than an actual reality in American society. To offer a detailed description of Enterprise Zones, therefore, would be a very difficult exercise to accomplish.

Secondary data, including information gathered from scholarly works, government documents, books, newspaper articles,

³⁶Earl R. Babbie, The Practice of Social Research (Belmont, CA: Wadsworth Publishing Co., 1979), p. 86.

periodicals, pamphlets and reports are used to obtain data for the study.

V. ANALYSIS

In analyzing the feasibility of Enterprise Zones the writer addresses some of the realities of urban areas in which Enterprise Zones will be located, while looking at the theoretical assumptions of the concept to evaluate whether the Enterprise Zone proposal is feasible.

The most ideal method of analysis would have been to evaluate and study existing United States Enterprise Zones as to their success in meeting their ultimate economic goal. However, after discussing the Enterprise Zone proposal with Mr. Bill Melvin, head coordinator of Enterprise Zones for the State of Georgia, and Sara Bell, coordinator for the State of Kentucky, it was concluded that there is insufficient data due to the newness of the Enterprise Zones.

President Ronald Reagan and his fellow conservatives have long argued that growth in the private sector will help the poor and unemployed far more than federal aid and that the Reagan budget cuts would not damage the "social safety net". But according to the United States Bureau of the Census, in 1982 (no report for 1983 is yet available) more Americans were below the poverty line than at any other time since the days of Lyndon Johnson's War on Poverty. The census study also indicated that the number of Americans existing in poverty rose from 31.8 million (14 percent) in 1981 to 34.4 million (15 percent) in 1982;

this percentage is the highest since 1965. Predictably, poverty increased most among Blacks (35.6 percent of whom were poor) and Hispanics (29.9 percent); also, the largest single category of poor families consisted of households headed by women (36.3 percent of the poverty population). The South remains the region with the highest percentage of poor families (18.1 percent) and has twice as many inner city residents who are below the poverty line.³⁷ The Administration's officials stress that this poverty rate will probably decline by 1984, when the benefits of economic recovery begin to trickle down.

As for unemployment, it remains at post-depression highs in many major cities despite the drop in the national jobless rate. The state worst off was Pennsylvania with an unemployment rate of 25.9 percent. Modesto, California was second at 23.8 percent. Conditions in other cities were just as depressing (see Table 2). Coupled with this is the tax burden. In all the major cities, the local tax burden has increased. In 1970 local tax per person was \$383 for a person living in New York. By 1981 the local tax per person was \$1,053, up by 175 percent. For a person living in Houston, Texas in 1970 local tax was \$82 per person; by 1981 it was \$253 per person, up by 209 percent. Residents of New York, Philadelphia and Baltimore now shoulder the heaviest per capita tax load among the major cities (see Table 3). Also fewer

³⁷"U.S. Poverty by the Numbers", Newsweek, August 15, 1983, p. 17.

TABLE 2
STATUS OF UNEMPLOYMENT

Highest Unemployment	
Johnstown, PA	25.9%
Modesto, CA	23.8%
Duluth-Superior, Minn.	22.2%
Sharon, PA	21.9%
Kankakee, Ill.	21.4%
Stockton, CA	20.4%
Yountstown-Warren, Ohio	20.1%
Muskegon-Norton Shores- Muskegon Heights, Mich.	19.6%
Flint, Mich	19.5%
Decatur, Ill.	19.3%
Peoria, Ill	19.2%
Bay City, Mich.	19.0%
Racine, Wis.	19.0%
Fresno, CA	18.8%
Wheeling, WVA	18.6%
Benton Harbor, Mich.	18.5%
Davenport-Rock Island- Moline, Ill.	18.2%
Salinas-Seaside- Monterey, CA	18.2%
Altoon, PA	18.1%
Rockford, Ill.	18.1%
Jackson, Miss.	17.7%
Canton, Ohio	17.5%
Gary-Hammond- East Chicago, Ind.	17.3%
Saginaw, Mich.	17.2%
Battle Creek, Mich.	17.1%
Lowest Unemployment	
Raleigh-Durham, N.C.	4.8%
Honolulu	5.0%
Austin, Tex.	5.1%
Lawrence, Kan.	5.1%
Stamford, Conn.	5.2%
San Angelo, TX	5.5%
Gainesville, FL	5.6%
Abilene, TX	5.7%
Tallahassee, FL	5.7%

TABLE 2 continued
STATUS OF UNEMPLOYMENT

Lowest Unemployment	
Washington, D.C.-Md.-VA	5.7%
Lubbock, TX	6.0%
Amarillo, TX	6.1%
Dallas-Fort Worth	6.1%
Lincoln, Neb.	6.1%
Midland, TX	6.1%
Sioux Falls, S.D.	6.2%
Lawton, Okla.	6.3%
Oklahoma City	6.4%
Lowell, Mass.	6.5%
Richmond, VA	6.5%
Lafayette, LA	6.6%
Rochester, Minn.	6.6%
Boston	6.7%
Poughkeepsie, N.Y.	6.8%
San Antonio	6.8%

Source: U.S. News and World Report, April 25, 1983,
p. 8.

TABLE 3

LOCAL TAXES PER PERSON

	1970	1981	Change
New York	\$383	\$1,053	Up 175%
Chicago	\$113	\$ 263	Up 133%
Los Angeles	\$110	\$ 255	Up 132%
Philadelphia	\$183	\$ 500	Up 173%
Houston	\$ 82	\$ 253	Up 209%
Detroit	\$148	\$ 300	Up 103%
Dallas	\$106	\$ 260	Up 145%
San Diego	\$ 63	\$ 155	Up 146%
Phoenix	\$ 72	\$ 161	Up 124%
Baltimore	\$222	\$422	Up 99%

Source: U.S. News, June 20, 1983, p. 40.

married couples are living in these blighted areas that are increasingly becoming homes to singles and the divorced. The percentage of population over age fourteen with spouse present in 1970 in Baltimore was 51.9 percent. In 1980 the percentage was only 39.4 percent, a drop of 12.5 percent over a ten-year period. In Detroit in 1970, 54.9 percent of married couples had their spouse present and in 1980, 40.7 percent had their spouse present, a drop of 14.2 percent (see Table 4). The crime rate is also increasing at a startling rate. Serious crimes per 1,000 persons in San Diego in 1970 was 33; by 1982 it was 75 crimes per 1,000 persons, up by 127 percent over a twelve-year period³⁸ (see Table 5). Nevertheless, the Reagan Administration hopes to change all this by establishing Enterprise Zones in those blighted areas.

There is no shortage of reasons why these incentives are not likely to induce businesses to locate or expand in these blighted areas. According to James Traud,

even if businesses do respond to changes in the tax law, studies have repeatedly demonstrated that businesses do not relocate because of these changes, and many businesses do not even avail themselves to the abandonments with which cities and states try to tempt them.³⁹

Furthermore, a tax break of \$6,000 or more per employee per year may not be a strong enough incentive to induce businesses to hire someone who has never had a steady job.

³⁸"City Life: Ways its Quality has Changed in a Decade", U.S. News and World Report, June 20, 1983, p. 40.

³⁹James Traud, "Urban Enterprise Fraud", The New Republic, October 18, 1982, p. 12.

TABLE 4
PERCENTAGE OF POPULATION OVER AGE FOURTEEN
MARRIED (WITH SPOUSE PRESENT)

	1970	1980
New York	56.0%	45.7%
Chicago	54.5%	43.3%
Los Angeles	55.1%	46.1%
Philadelphia	53.5%	43.4%
Houston	63.1%	52.2%
Detroit	54.9%	40.7%
Dallas	62.5%	50.7%
San Diego	57.9%	48.7%
Phoenix	65.1%	56.9%
Baltimore	51.9%	39.4%

Source: U.S. News, June 20, 1983, p. 40.

TABLE 5

SERIOUS CRIMES PER 1,000 PERSONS
IN TEN MAJOR CITIES

	1970	1982	Change	
New York	66	97	Up	47%
Chicago	38	61	Up	61%
Los Angeles	62	108	Up	74%
Philadelphia	23	56	Up	143%
Houston	49	104	Up	112%
Detroit	84	128	Up	52%
Dallas	60	128	Up	113%
San Diego	33	75	Up	127%
Phoenix	50	96	Up	92%
Baltimore	69	93	Up	35%

Note: Serious crimes are murder, forcible rape, robbery, aggravated assault, burglary, larceny, theft and auto theft.

Source: U.S. News, June 20, 1983, p. 41.

Another criticism of Enterprise Zones is that they would encounter competition from foreign countries like Malaysia, Taiwan and Korea, which have already lured away many light industries from the United States because of their already existing low-wage incentives which aid businesses in increasing their profits. Moreover, the possibility of United States Enterprise Zones having incentives great enough to prevent businesses from fleeing to these low-wage nations, is hard to conceive.⁴⁰

Problems also arise with high-technology plants engaged in research and development activities. Because of the cultural and economic differences, the professional workers of the plant would possibly prefer to live in New York or Boston rather than an area such as South Bronx. If chemical research labs or electronic plants were to locate in the South Bronx, for example, they could qualify for the tax incentives offered by the Kemp-Garcia bill by employing local residents as custodians, unskilled assemblers, lab assistants and clerical workers. But the legislation does not offer training for the unemployed in new skills or remedying their high illiteracy rate so that they can qualify for technical jobs. Thus, under the Reagan urban policy a number of new facilities may flourish economically in depressed South Bronx and other similarly depressed areas, but few local residents will gain more than a low-paying entry-level job.⁴¹

Other zone critics point to the fact that the major tax

⁴⁰Stanely Aronowitz and Cary Goodman, "A Walk on the Supply Side", The Nation, February 21, 1981, p. 208.

⁴¹Ibid., p. 208.

cuts provide no "start-up" money for small businesses. A study conducted by David Birch of the Massachusetts Institute of Technology shows that 80 percent of new jobs that have become available were created by businesses with less than 100 employees, and in the past ten years, nearly 20 percent of new private sector employment has come from businesses with twenty or fewer employees.⁴² He further asserts that these businesses are too small and too numerous, and fail to meaningfully benefit from traditionally "targeted aid". Moreover, tax credits are useless unless one can make a profit, and most small or new businesses make little or no profit in their initial years. They need money immediately to expand their businesses or at least to maintain business at existing levels.⁴³ Therefore, the principal beneficiaries would be existing profitable firms, not small and minority businesses since they cannot take full advantage of the opportunity to reduce or eliminate tax liability by deducting half of their gross receipts from taxable income.⁴⁴

The writer wishes to further reinforce this point by examining the more "established" Enterprise Zones in Florida and Connecticut. A study done by Coopers and Lybrand for the United States Small Business Administration (SBA) of Enterprise Zones established in Connecticut and Florida concluded

⁴²Roby Boschwitz, "Are Proposed Kemp-Garcia Urban Enterprise Zones a Sound Approach to U.S. Urban Revitalization?" Congressional Digest, March 1982, p. 78.

⁴³Traud, "Urban Enterprise Fraud", p. 12.

⁴⁴Boschwitz, "Are Proposed Kemp-Garcia Urban Enterprise Zones a Sound Approach to U.S. Urban Revitalization?" p. 79.

that Enterprise Zones incentives generate significant benefits to established businesses, but small businesses may be unable to take full advantage of these benefits during the initial years of operation, when the probability of business failure is quite high. Further, they point out that the incentives have only a marginal effect on a business's cash flow during its first years of operation. Thus, in determining the incentives' real value, the small business must discount its potential return because the tax credits are not available when they are needed most. When they are available in the latter years, they contribute to existing positive cash flows. Also, the available tax credits would be of greater value in initial years to established businesses considering expansion than to start-up businesses without an established record of earnings.⁴⁵ (See Tables 6 and 7.)

The unfair competitive advantage Enterprise businesses will have over other businesses located just outside the designated Enterprise Zone areas will cause a setback for the non-zone businesses. Thus the economic vitality of the non-zone businesses would suffer because the benefits to be derived are skewed toward businesses in Enterprise Zones.⁴⁶ Also, this would pose a threat to existing businesses in the zone areas that are already providing employment, but are unable to meet

⁴⁷Jane Houlton and Fiona Mallon, "Erroneous Zones", New Statesman, August 20, 1982, p. 6.

⁴⁸Barbara Rosen, "U.K. Enterprise Zones Seem Successful but Depend Largely on Government Aid", Wall Street Journal, April 29, 1983, p. 36.

TABLE 6

CRITERIA AND INCENTIVES FOR FLORIDA ENTERPRISE ZONES

Criteria for Designation:

The following are considered

- Housing conditions
- Per capita income
- Percent of elderly and youth residents
- Unemployment
- Per capita local taxes

Zone Incentives:

- A credit against the corporation income tax is provided equal to 25 percent of the wages of new employees for a period up to 12 months. Effective dates 7/1/80 - 6/30/86.
- A credit against the corporation income tax is provided for new or expanded businesses equal to 96 percent of the school portion of ad valorem taxes levied. Credit can be claimed for 10 years up to a maximum of \$40,000 annually. Unused portions may be carried forward up to five years. Effective dates 1/1/81 - 12/31/86.
- Allows firms a 50 percent credit on Florida income tax for donations to local community development projects. Must be made through an eligible agency such as a community development corporation or community action program. Annual amount of credit limited to \$200,000 per firm and \$3,000,000 for the State.
- Provides loans to Community Development Corporations. All loans shall be interest free and shall be repaid within 5 years.

Source: The Department of Housing and Urban Development, Atlanta, Georgia, February 1984.

TABLE 7
CRITERIA AND INCENTIVES FOR CONNECTICUT
ENTERPRISE ZONES

Criteria for Designation:

Must have one of the Following:

- 25 percent or more of the population below poverty level
- 25 percent or more of the population dependent on welfare
- An unemployment rate twice that of the State average

Zone Incentives:

- \$1,500,000 available in venture capital loans to small businesses.
- 50 percent State corporate income tax credit.
- Assessments phased over a 7-year period for new construction.
- \$1,000 provided to manufacturers for each new job created.
- Purchases of spare or replacement parts are exempt from sales tax.
- Employment training vouchers.
- Property tax abatements for new manufacturing projects.

Source: The Department of Housing and Urban Development, Atlanta, Georgia, February 1984.

the Act's criteria for tax credit and other Enterprise Zone benefits.

The British, who were the first to implement Enterprise Zones have similar incentives for rebuilding their depressed areas. The eleven zones that have been established for job creation in Britain have proven to be unsuccessful. At best they have generated windfall profits for businesses and developers who just happened to be in the right place at the right time. During the process, they have caused a lot of disruption and discontent. The zones indeed attracted a large number of businesses into their areas, but the majority were established businesses that were uprooting from bases elsewhere.⁴⁷ And if this is not discouraging enough, Victor Hausner, a senior Visiting Fellow at the Policy Studies, Institute, states:

that the British incentives are tied to property, not to people as the U.S. proposals suggest, and that is an important distinction, also in the U.S. they're trying to crack a much tougher nut.⁴⁸

The current status of Enterprise Zone legislation is summarized on Table 11 and Table 12. A more detailed status report released by the National Association of State Development Agencies is shown on Tables 13, 14 and 15. An overview in terms of state Enterprise Zone legislation enacted and state administrative Enterprise Zone programs is shown on the map provided (see Appendix B).

⁴⁷Jane Houlton and Fiona Mallon, "Erroneous Zones", New Statesman, August 20, 1982, p. 6.

⁴⁸Barbara Rosen, "U.K. Enterprise Zones Seem Successful but Depend Largely on Government Aid", Wall Street Journal, April 29, 1983, p. 36.

VI. CONCLUSIONS AND RECOMMENDATIONS

Will Enterprise Zones revitalize the depressed areas of the nation's cities? Only time will tell. Tax incentives would be a very effective tool in creating jobs and stimulating realities that many business enterprises do not wish to face. As earlier referred to, these include a high crime rate, an unskilled labor force, and the higher costs of doing business in cities with declining tax bases. It is possible however that Enterprise Zones could serve as one of many approaches to urban economic development.

Other urban economic development proposals, such as, Model Cities, CETA and Operation Bootstrap, have failed in their attempt to revitalize the urban area. Although Enterprise Zones offer a fresh approach, tax incentives alone cannot solve the underlying social problems of the nation's cities. These problems and realities of the cities must be addressed before any supply-side theory can be put into effect.

This writer recommends that a number of things must first be done if Enterprise Zones are to be adopted as a viable approach to urban economic development:

1. Require businesses who participate in Enterprise Zones to set up training and education programs to train prospective employees.
2. Businesses should be required to hire and train a certain percentage of residents in the zone to middle and upper management positions.

3. Effectively target the tax breaks. Smaller firms with less operating capital and profits should be given greater tax breaks in the initial years of operation.

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